

Message Text

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E.O. 11652: GDS

TAGS: ENRG, ID, JA

SUBJ: INDONESIAN LNG

REFS: A) TOKYO 16306 B) STATE 243613

1. SUMMARY: UNDER LNG-OIL PARITY FORMULA IN PERTAMINA/JAPANESE LNG SALES CONTRACT JAPANESE COULD BE PAYING ALMOST THREE TIMES MORE FOR LNG THAN PACIFIC LIGHTING (PL) THUS EXPLAINING PERTAMINA INTEREST IN MODIFYING PL CONTRACT. UNDER CIRCUMSTANCES REF B PARA 3, OUTLOOK IS BLEAK FOR MUTUALLY SATISFACTORY PL-PERTAMINA AGREEMENT. MEANWHILE, GOI-AND GOJ ARE DISCUSSING POSSIBLE FINANCING OF LIQUEFACTION PLANTS FOR ANNOUNCEMENT DURING PRIME MINISTER TANAKA'S VISIT NEXT MONTH AND PERTAMINA REP IS PLANNING MEET WITH EXIM WASHINGTON IN JANUARY. END SUMMARY.

2. OUR CONVERSATIONS WITH MILDS/PERTAMINA REPS FOLLOWING SIGNING JAPANESE LNG SALES CONTRACT CONFIRM SARWONO'S COMMENTS ON PRICE AND PARITY FORMULA REPORTED REFTEL (A).

TWO WEEKS AGO OIL COMPANY REPS WERE RELATIVELY CERTAIN CRUDE OIL PRICE WOULD INCREASE FROM \$6 TO \$8 PER CONFIDENTIAL

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BARREL. LATEST RUMORS ARE FOR INCREASE TO \$12-\$16 RANGE

EFFECTIVE JANUARY 1. GIVEN 90 PERCENT PARITY FORMULA AND ASSUMING CRUDE PRICE INCREASE OF \$ HPER BARREL, LNG FOB PRICE WOULD INCREASE BY 81 CENTS TO \$1.71 PER MBTU, COMPARED TO 63 CENTS SPECIFIED IN PERTAMINA-PL CONTRACT.

IN SHORT, JAPANESE WOULD BE PAYING ALMOST THREE TIMES MORE THAN PL. CONSEQUENTLY, WE ARE NOT SURPRISED THAT PERTAMINA IS PROPOSING MODIFYING PACIFIC LIGHTING (PL) CONTRACT BUT ARE UNABLE TO ASCERTAIN PERTAMINA INTENTIONS SINCE ALL KEY PERTAMINA/MIGAS OFFICIALS NOW ABROAD, MANY IN TOKYO FOR CRUDE OIL PRICE AND LNG FINANCING DISCUSSIONS.

4. WE HAVE LEARNED, HOWEVER, THAT PERTAMINA HAS REQUESTED US EXIM BANK TO EXTEND VALIDITY PERIOD EXIM PRELIMINARY COMMITMENT DUE TO EXPIRE DECEMBER 31 AND THAT JOHN NIZAR, DIRECTOR OF PERTAMINA'S MANAGEMENT SERVICES DIVISION, EXPECTS TO BE IN WASHINGTON MID-JANUARY FOR DISCUSSIONS WITH EXIM OFFICIALS.

5. WE UNDERSTAND THAT INDONESIANS AND JAPANESE ARE DISCUSSING \$700 MILLION FINANCING PACKAGE TO COVER TWO-THIRDS COST TWO LIQUEFACTION PLANTS INCLUDING \$200 MILLION ON CONCESSIONAL TERMS AND \$500 FROM JAPAN EXIM BANK. WE HAVE HEARD THAT JAPANESE HAVE OFFERED TO TAKE ALL LNG AND INCREASE FINANCING TO \$1.2 BILLION IF NECESSARY. ANNOUNCEMENT ON FINANCING MAY WELL BE MADE DURING PRIME MINISTER TANAKA'S VISIT NEXT MONTH.

6. COMMENT: BASED ON RECENT DEVELOPMENTS, IT IS OBVIOUS THAT PL WILL BE UNDER STRONG PRESSURE TO AMEND PRESENT PRICING CLAUSE. OUTLOOK APPEARS BLEAK FOR MUTUALLY SATISFACTORY PL-PERTAMINA AGREEMENT, IF CONDITIONS REF B PARA 3 PERSIST.

ALTHOUGH GENERAL IBNU HAS INDICATED PERTAMINA PLANS FOR SALE OF LNG TO UGYS. BA MYOTO CERTAIN EXTENT ON NON-ECONOMIC FACTORS, WE BELIEVE IBNU AND GOI WOULD HAVE DIFFICULT TIME DEFENDING SALES CONTRACT TO U.S. THAT RESULTED IN SUBSTANTIALLY LOWER BENEFITS TO INDONESIA THAN SALE TO

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